

108TH CONGRESS  
1ST SESSION

# S. 1967

To allow all businesses to make up to 24 transfers each month from interest-bearing transaction accounts to other transaction accounts, to require the payment of interest on reserves held for depository institutions at Federal reserve banks, to repeal the prohibition of interest on business accounts, and for other purposes.

---

## IN THE SENATE OF THE UNITED STATES

NOVEMBER 25, 2003

Mr. HAGEL (for himself and Ms. SNOWE) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

---

## A BILL

To allow all businesses to make up to 24 transfers each month from interest-bearing transaction accounts to other transaction accounts, to require the payment of interest on reserves held for depository institutions at Federal reserve banks, to repeal the prohibition of interest on business accounts, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

### 3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Interest on Business  
5 Checking Act of 2003”.

1 **SEC. 2. INTEREST-BEARING TRANSACTION ACCOUNTS AU-**  
 2 **THORIZED FOR ALL BUSINESSES.**

3 (a) IN GENERAL.—Section 2(a) of Public Law 93–  
 4 100 (12 U.S.C. 1832(a)) is amended by inserting after  
 5 paragraph (2) the following:

6 “(3) Notwithstanding any other provision of  
 7 law, any depository institution may permit the owner  
 8 of any deposit or account which is a deposit or ac-  
 9 count on which interest or dividends are paid and is  
 10 not a deposit or account described in paragraph (2)  
 11 to make not more than 24 transfers per month (or  
 12 such greater number as the Board of Governors of  
 13 the Federal Reserve System may determine by rule  
 14 or order), for any purpose, to another account of the  
 15 owner in the same institution. An account offered  
 16 pursuant to this paragraph shall be considered a  
 17 transaction account for purposes of section 19 of the  
 18 Federal Reserve Act, unless the Board of Governors  
 19 of the Federal Reserve System determines other-  
 20 wise.”.

21 (b) CONFORMING AMENDMENTS.—

22 (1) IN GENERAL.—Section 2(a) of Public Law  
 23 93–100 (12 U.S.C. 1832(a)), as amended by sub-  
 24 section (a), is further amended—

25 (A) in paragraph (1), by striking “but sub-  
 26 ject to paragraph (2)”;

1 (B) by amending paragraph (2) to read as  
 2 follows:

3 “(2) No provision of this section may be con-  
 4 strued as conferring the authority to offer demand  
 5 deposit accounts to any institution that is prohibited  
 6 by law from offering demand deposit accounts.”; and

7 (C) in paragraph (3), by striking “and is  
 8 not a deposit or account described in paragraph  
 9 (2)”.

10 (2) EFFECTIVE DATE.—The amendments made  
 11 by paragraph (1) shall take effect on the date which  
 12 is 2 years after the date of enactment of this Act.

13 **SEC. 3. AUTHORIZATION OF INTEREST-BEARING TRANS-**  
 14 **ACTION ACCOUNTS.**

15 (a) REPEAL OF PROHIBITION ON PAYMENT OF IN-  
 16 TEREST ON DEMAND DEPOSITS.—

17 (1) FEDERAL RESERVE ACT.—Section 19(i) of  
 18 the Federal Reserve Act (12 U.S.C. 371a) is re-  
 19 pealed.

20 (2) HOME OWNERS’ LOAN ACT.—Section  
 21 5(b)(1)(B) of the Home Owners’ Loan Act (12  
 22 U.S.C. 1464(b)(1)(B)) is amended by striking “sav-  
 23 ings association may not—” and all that follows  
 24 through “(ii) permit any” and inserting “savings as-  
 25 sociation may not permit any”.

1           (3) FEDERAL DEPOSIT INSURANCE ACT.—Sec-  
 2           tion 18(g) of the Federal Deposit Insurance Act (12  
 3           U.S.C. 1828(g)) is repealed.

4           (b) JOINT RULEMAKING REQUIRED.—

5           (1) IN GENERAL.—Not later than 2 years after  
 6           the date of enactment of this Act, the Secretary of  
 7           the Treasury and the Federal banking agencies shall  
 8           issue joint final regulations authorizing the payment  
 9           of interest and dividends on transaction accounts at  
 10          depository institutions that are subject to regulation  
 11          by those entities.

12          (2) CONTENTS.—Regulations required by this  
 13          subsection shall—

14                (A) establish the scope of the authorization  
 15                described in paragraph (1) and the types of  
 16                transaction accounts to which that authoriza-  
 17                tion shall apply; and

18                (B) include any appropriate limitations, ex-  
 19                ceptions, or restrictions on that authorization,  
 20                consistent with the purposes of this section.

21          (3) EFFECTIVE DATE OF REGULATIONS.—The  
 22          regulations required by this subsection shall take ef-  
 23          fect not later than 2 years after the date of enact-  
 24          ment of this Act.

1 (4) DEFINITIONS.—As used in this sub-  
 2 section—

3 (A) the terms “depository institution” and  
 4 “transaction account” have the meanings given  
 5 such terms in subparagraphs (A) and (C), re-  
 6 spectively, of section 19(b)(1) of the Federal  
 7 Reserve Act (12 U.S.C. 461(b)(1)); and

8 (B) the term “Federal banking agency”  
 9 has the meaning the term in section 3 of the  
 10 Federal Deposit Insurance Act (12 U.S.C.  
 11 1813).

12 (c) EFFECTIVE DATE OF REPEAL.—The amend-  
 13 ments made by subsection (a) shall become effective on  
 14 the earlier of—

15 (1) 2 years after the date of enactment of this  
 16 Act; or

17 (2) the date on which final regulations required  
 18 to be issued under subsection (b) become effective.

19 **SEC. 4. PAYMENT OF INTEREST ON RESERVES AT FEDERAL**  
 20 **RESERVE BANKS.**

21 (a) IN GENERAL.—Section 19(b) of the Federal Re-  
 22 serve Act (12 U.S.C. 461(b)) is amended by adding at  
 23 the end the following:

24 “(12) EARNINGS ON RESERVES.—

“(A) IN GENERAL.—Balances maintained at a Federal reserve bank by or on behalf of a depository institution may receive earnings to be paid by the Federal reserve bank at least once each calendar quarter at a rate or rates not to exceed the general level of short-term interest rates.

“(B) REGULATIONS RELATING TO PAYMENTS AND DISTRIBUTION.—The Board may promulgate regulations concerning—

“(i) the payment of earnings in accordance with this paragraph;

“(ii) the distribution of such earnings to the depository institutions which maintain balances at such banks or on whose behalf such balances are maintained; and

“(iii) the responsibilities of depository institutions, Federal home loan banks, and the National Credit Union Administration Central Liquidity Facility with respect to the crediting and distribution of earnings attributable to balances maintained, in accordance with subsection (c)(1)(A), in a Federal reserve bank by any such entity on behalf of depository institutions.

1                   “(C) DEPOSITORY INSTITUTION DE-  
 2                   FINED.—For purposes of this paragraph, the  
 3                   term ‘depository institution’, in addition to any  
 4                   institution described in paragraph (1)(A), in-  
 5                   cludes any trust company, corporation orga-  
 6                   nized under section 25A or having an agree-  
 7                   ment with the Board under section 25, or any  
 8                   branch or agency of a foreign bank (as defined  
 9                   in section 1(b) of the International Banking Act  
 10                  of 1978).”.

11           (b) AUTHORIZATION FOR PASS THROUGH RESERVES  
 12 FOR MEMBER BANKS.—Section 19(c)(1)(B) of the Fed-  
 13 eral Reserve Act (12 U.S.C. 461(c)(1)(B)) is amended by  
 14 striking “which is not a member bank”.

15           (c) TECHNICAL AND CONFORMING AMENDMENTS.—  
 16 Section 19 of the Federal Reserve Act (12 U.S.C. 461)  
 17 is amended—

18                   (1) in subsection (b)(4),  
 19                         (A) by striking subparagraph (C); and  
 20                         (B) by redesignating subparagraphs (D)  
 21                   and (E) as subparagraphs (C) and (D), respec-  
 22                   tively; and  
 23                   (2) in subsection (c)(1)(A), by striking “sub-  
 24                  section (b)(4)(C)” and inserting “subsection (b)”.

1 **SEC. 5. INCREASED FEDERAL RESERVE BOARD FLEXI-**  
 2 **BILITY IN SETTING RESERVE REQUIRE-**  
 3 **MENTS.**

4 Section 19(b)(2)(A) of the Federal Reserve Act (12  
 5 U.S.C. 461(b)(2)(A)) is amended—

6 (1) in clause (i), by striking “the ratio of 3 per  
 7 centum” and inserting “a ratio not greater than 3  
 8 percent (and which may be zero)”; and

9 (2) in clause (ii), by striking “and not less than  
 10 8 per centum,” and inserting “(and which may be  
 11 zero),”.

12 **SEC. 6. TREATMENT OF CERTAIN ESCROW ACCOUNTS.**

13 (a) IN GENERAL.—In the case of an escrow account  
 14 maintained at a depository institution for the purpose of  
 15 completing the settlement of a real estate transaction, ac-  
 16 tivities described in subsection (b) shall not be treated as  
 17 the payment or receipt of interest for purposes of this Act  
 18 or any other provision of law relating to the payment of  
 19 interest on accounts or deposits maintained at depository  
 20 institutions, including such provisions in—

- 21 (1) Public Law 93–100;
- 22 (2) the Federal Reserve Act;
- 23 (3) the Home Owners’ Loan Act; or
- 24 (4) the Federal Deposit Insurance Act.

25 (b) EXCLUSIONS.—For purposes of subsection (a),  
 26 activities described in this paragraph are—



1           (1) the absorption, by the depository institution,  
2           of expenses incidental to providing a normal banking  
3           service with respect to an escrow account described  
4           in subsection (a);

5           (2) the forbearance, by the depository institu-  
6           tion, from charging a fee for providing any such  
7           banking function; and

8           (3) any benefit which may accrue to the holder  
9           or the beneficiary of such escrow account as a result  
10          of an action of the depository institution described  
11          in paragraph (1) or (2) or a similar action.

○